

"substantive plan" rather than the "written plan". Under the Exposure Draft which required the "written plan", employers would be able to assume only the terms as presently set forth in their respective plans. However, in plain language, companies are now required under FAS 106 to accrue a best estimate for their PBOP obligation. Because of the extended period for projecting PBOP benefits, it is highly unlikely that the plan, as written, will remain unchanged over that entire period.

16. Q. Did Pacific reflect the substantive plan in its PBOP liability calculation?

A. Yes. In Pacific's case, the company has negotiated a medical contribution cap for retiree benefits beginning with contributions due on or after January 1, 1993 for participants who retire on or after January 1, 1991. However, the provisions of the written plan do not provide for any inflationary increases for future years. Therefore, pursuant to FAS 106's substantive plan concept, Pacific estimated its future obligation using realistic projections of future expense.

17. Q. Are Pacific's substantive plan assumptions reasonable and appropriate?

A. Yes. Pacific realizes that there may be adjustments made in future periods. The use of the substantive plan

TOTAL COMPANY PAY-AS-YOU-GO AS COMPARED  
TO INCREMENTAL SFAS 106 ACCRUAL

An analysis was performed by AT&T that shows that several companies (Ameritech, BellSouth, NYNEX (utilizing its low-end estimate), and SNET) are incurring a high percentage of their overall projected SFAS 106 expense currently through cash pay-as-you-go expenses; this tends to show that their OPEB assumptions are closely related to actual experience and, conversely, that the other LECs' assumptions above pay-as-you-go levels may be due to generous plan assumptions and liberal actuarial parameters. GTE was excluded from this analysis because it did not identify either its total company or interstate 1993 SFAS 106 liability; GTE identified only its incremental interstate OPEB liability. In addition, Bell Atlantic was excluded from this analysis, because it did not distinguish pay-as-you-go expenses (claims paid to retirees) from previously recognized amounts (funds set aside in a VEBA trust). AT&T urges the Commission to obtain these data from GTE and Bell Atlantic and include them as part of this analysis.

AT&T has taken each of the LEC's total company 1993 SFAS 106 liability and split it between (i) claims paid to current retirees (pay-as-you-go expense) and (ii) the remaining portion, the incremental OPEB liability. For Ameritech, BellSouth, NYNEX (utilizing its low-end estimate), and SNET, the current pay-as-you-go experience is an amount equal to approximately 44% to 71% of the total company 1993 SFAS 106 liability. In contrast, other companies (Pacific, NYNEX (utilizing its high-end estimate), Rochester, Southwestern Bell, United and U S WEST) are only currently incurring approximately 19% to 33% of their total company 1993 SFAS 106 liability as current claims paid to retirees. AT&T recognizes that a minor portion of this variation is attributable to the use of VEBA trusts. However, the analysis again suggests to AT&T that those LECs which are only incurring 19% to 33% of their total liability as current claims may be using generous plan assumptions (e.g., limited or no capping of the plans, substantive plan commitments utilized in SFAS 106 liability calculation, and liberal assumptions in actuarial models).

	(1) Total Company 1993 SFAS 106 Liability (\$000s)	(2) Claims Paid to Retirees Pay-As-You-Go Expense	% of Total	(3)=(1)less(2) Incremental OPEB Liability	% of Total
Ameritech	\$384,089	\$168,243	44	\$215,846	56
BellSouth <sup>(A)</sup>	210,000	149,500 <sup>(B)</sup>	71	60,500	29
NYNEX (low estimate)	372,342	193,618 <sup>(C)</sup>	52	178,724	48
NYNEX (high estimate)	584,578	193,618	33	390,960	67
Pacific	402,505	121,486 <sup>(B)</sup>	30	281,019	70
Rochester	21,509	4,146 <sup>(D)</sup>	19	17,363	81

SNET	41,300	26,000	63	15,300	37
Southwestern Bell	426,502	126,684 <sup>(B)</sup>	30	299,818	70
United	78,361	15,609	20	62,752	80
U S WEST	<u>404,647</u>	<u>121,609</u>	30	283,038	70
Totals (excluding Bell Atlantic and GTE; assumes NYNEX low-end estimate)	2,341,255	926,895	40	1,414,360	60

NOTES:

- (A) AT&T recognizes that the substantial contributions that BellSouth has made to its VEBA trusts significantly reduce its overall SFAS 106 obligation and serve to explain its 71% pay-as-you-go expense as a percent of its total company 1993 SFAS 106 liability.
- (B) 1992 pay-as-you-go amounts were utilized for BellSouth, Pacific (including Nevada) and Southwestern Bell, because these companies appear not to have included any 1993 pay-as-you-go amount projections in their filings.
- (C) NYNEX's low estimate, which assumes an employer cap on non-management health care costs fixed at the 1995 level, was utilized here. AT&T also assumed NYNEX will adopt SFAS 106 on 1/1/93. \$52.0 million interstate total pay-as-you-go amount was grossed up to a \$193.6 million total company level utilizing a 26.857% interstate ratio developed in the same manner as described in Appendix E, p. 3, note (C).
- (D) Rochester's (including Vista's) \$0.8 million interstate total pay-as-you-go amount is grossed up to a \$4.1 million total company level utilizing a 19.536% interstate ratio developed in the same manner as described in Appendix E, p. 3, note (C).

# HEALTH COST INDEX REPORT<sup>TMI</sup>

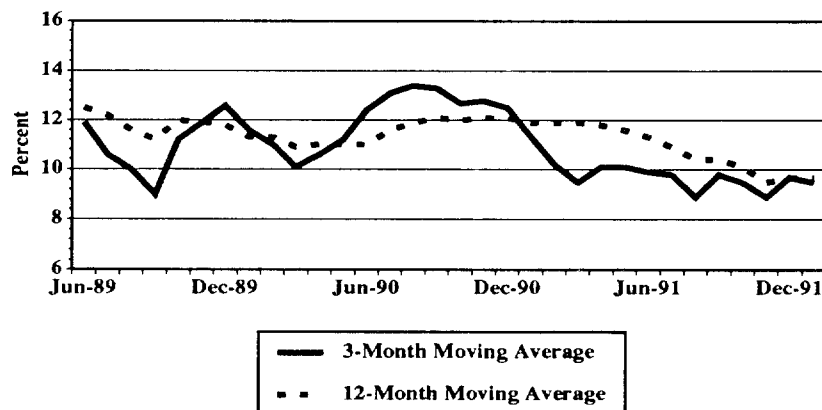
May, 1992

The preliminary Health Cost Index trends for January 1992 are now available. Estimates for the full quarter ending March 1992, as well as regional trends, will appear in the July 1992 Health Cost Index Report. The changes in the 1-month, 3-month, and 12-month average indices for December 1991 and January 1992 compared to one year ago are as follows:

	<u>1-Month</u>	<u>3-Month</u>	<u>12-Month</u>
December 1991	13.0%	9.7%	9.7%
January 1992	10.0%	9.5%	9.7%

Trends remain at their lowest level since the 1st quarter of 1986. This stability is due to movement in the 3-month moving average trends which continue to fluctuate below 10%. As a result, the 12-month moving averages have moved towards this level. The 1-month trends in December and January are somewhat higher, probably attributable to the strong influenza season this year. Economic growth in early 1992 may cause trends to move higher in the future. A graph of recent Health Cost Index trends is shown below:

**Health Cost Index**



The Health Cost Index is designed to measure the average rate of increase in medical care costs for the non-Medicare population. The index measures the impact of changes in prices (net), utilization, and mix/intensity for a typical CMM plan with \$250 deductible. The index does not reflect adverse selection and non-Medicare cost shifting often experienced by many insurers. Please direct any inquiries or comments to Michelle Lynn Owens at the following address:

The Health Cost Index Report  
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259 Radnor-Chester Road, Suite 300  
Radnor, Pennsylvania 19087  
(215) 687-5644



CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, hereby certify that a true copy of the foregoing "AT&T Opposition to Direct Cases" was served this 1st day of July, 1992 by first class mail, postage prepaid, on the parties listed on the attached service list.

  
Ann Marie Abrahamson

July 1, 1992

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